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## Turkey

## Sugar

## Sugar and Sweeteners Annual

## 2009

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**Report Highlights:**

Turkey's sugar beet production for MY 2008 is estimated at 12.5 MMT, well below average because of drought. Consequently MY 2008 total centrifugal sugar production was only 1.7 MMT. Sugar beet production in MY 2009 is forecast to rebound to 14.8 MMT, and to 15.0 MMT in MY 2010, assuming normal weather. Sugar output in MY 2009 and MY 2010 is forecast to reach the 2.1 MMT quota. The Sugar Law remains a challenge to producers of both sugar and starch-based sweeteners, but no changes are expected in the near future.

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Includes PSD Changes: Yes  
Includes Trade Matrix: Yes  
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## Executive Summary

Turkey's sugar beet production for MY 2008 is estimated at 12.5 MMT and the harvested area was 300,000 hectares. This was a substantial decrease from the year before due to the recent drought. Post estimates that the total sugar beet production for MY 2009 will be 14.8 MMT and the forecast for MY 2010 is 15.0 MMT. Total centrifugal sugar production for MY 2008 was only 1.7 MMT, but is forecast to reach the quota of 2.1 MMT in MY 2009 and MY 2010.

## Production

Sugar beet production in Turkey is a politically charged issue. When it comes to sugar policy social considerations dominate the decision making process. For example, state-owned sugar refineries were purposely opened in places with high unemployment rates, and government-supported procurement prices are used to protect the industry.

Under the Sugar Law, up until MY 2009, there has been a production quota of 2,342,000 MT. This is known as the A production quota, which is determined annually by the Sugar Board according to local sugar consumption. There is also a B quota which is a small amount produced as a margin. Finally there is also C quota sugar, which cannot be marketed domestically. C quota sugar is sold at world prices and is only for utilization in products which will be exported. In MY 2009 the A quota rose for the first time since 2003 to 2,400,000 MT. The starch-based sweetener (SBS) quota was also increased to 266,700 MT from 234,100 MT of previous years.

It is forecast that in MY 2010, farmers contracted by the state owned refineries and private factories (excluding PANKOBIRLIK) will produce approximately 9.0 MMT of sugar beets on 210,000 hectares. PANKOBIRLIK is expected to produce approximately 6.0 MMT of sugar beets on 120,000 hectares. The MY 2009 advance sugar beet price was announced as YTL 108 /MT.

There are 33 sugar beet refineries in Turkey and five starch based sugar (SBS) producers. The state owned Turkish Sugar Corporation (TSC) owns 25 of the sugar beet refineries. The Ministry of Industry and Trade oversees TSC. Total centrifugal sugar production is projected to be 2.1 MMT in MY 2009. Of this total, the 25 state owned refineries are projected to produce 1.2 MMT and the 8 private refineries are projected to produce 0.9 MMT.

In response to pressure from the IMF and EU, the government has been trying to make the sector more market-oriented without attracting negative attention from the media and opposition parties. The government already privatized three government-owned sugar refineries (Kutahya, Adapazari and Aksaray) and three others (Ilgin, Bor, Eregli) were turned over to the Privatization Administration, but their privatization was cancelled in November 2006. In December 2007 the remaining government refineries were transferred to the Privatization Administration. In 2008, Portfolio A companies (factories in the Eastern part of the Turkey) were put up for auction to the private sector. However there were no bids submitted on any of the companies by the November 2008 deadline. Industry sources suggest that these low-capacity factories are too inefficient to generate private sector interest.

The industry expects the sugar sector in Turkey to become more efficient once privatization is completed. Currently, sugar prices in Turkey are far above world prices because of government protection and the outdated technology in the state-owned plants. The Turkish government also plans to bring its sugar policies more in line with the new sugar policies of

the EU, which foresees a 36 percent drop in sugar beet procurement prices in the next four years.

Annual per capita sugar and sweetener consumption is estimated to be around 38 kilograms, taking into account the smuggled sugar and unregistered SBS production.

Currently the price of sugar in Turkey is YTL 1.868/kg, which is the same as final price of 2008 and includes an eight percent tax. The price had been YTL 1.696/kg from 2004 to 2007.

### **Production: Sugar beets**

The Sugar Board's 2008 official count of sugar-beet-producing farms is 209,000. This is a radical decrease from 459,571 farms in 2003. Unfortunately, both figures are distorted –and in different directions. Previously in order to take advantage of advance payments, farmers registered multiple family members as individual producers, which inflated the farm numbers. More recently, before making advance payments, beet procurement firms have demanded “farmers’ documents,” which are issued by agricultural chambers for an annual fee. Consequently producers pool production to avoid these fees, artificially deflating the number of farms. Post believes that there are approximately 350,000 farms growing sugar beets in Turkey.

Sugar beet production is calculated in three different ways: the quantity of sugar beets delivered to the refineries by the farmers; the amount accepted by the refineries; and the amount processed in the refineries. In this report sugar beet production is used for the final amount that is processed in the refineries. In MY 2008, due to drought, sugar beet production decreased to 12.5 MMT on 300,000 hectares of harvested land. In MY 2009 with favorable weather conditions and precipitation post expects 14.8 MMT of sugar beet production on 320,000 hectares of harvested land.

According to the sugar beet producers’ cooperative PANKOBIRLIK, in the past 5 years sugar beet yields in Turkey (based on processed sugar beets) have varied between 38 and 52 MT per hectare depending on the region and weather conditions. However in Konya yields are between 55 and 60 MT per hectare. This is due to the machinery, irrigation, and know-how of PANKOBIRLIK, combined with a favorable climate. 2008 MY overall yields about 41.6 MT per hectare. Given favorable weather conditions post expects yields between 46-47 MT per hectare in near future.

Sugar beets are generally grown in three or four-year rotations with cereals, pulses, fodder crops and sunflowers. Beet production is usually coordinated among farmers of the same village. All the fields in the village are divided into four groups and a different group is planted every year. Planting begins as early as February and continues through May. Harvest is from late July to November.

Sugar beets are produced throughout Turkey, and as required by the Sugar Law, they are sold under contract to refineries. Every year, the Sugar Board allocates a production quota for each sugar-producing company, depending on their performance during the previous three years. Following the production quota announcements, the refineries sign contracts with the farmers for the amount of sugar beets to be procured and the procurement price. The price set forth in these contracts can either be an “advance” price, which may be subject to change, or it can be a “final” price. The Sugar Law mandates that sugar beet procurement prices be set annually by each refinery individually through negotiation with the farmers in their region. However for the last four years, instead of prices being set

individually be each refinery, the Sugar Board has announced the “final” sugar beet procurement prices for the entire industry.

### Sugar Beet PSD Table

Sugar Beets Turkey	2008			2009			2010		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Sep 2007			Market Year Begin: Sep 2008			Market Year Begin: Sep 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed	Jan	
			Data			Data		Data	
Area Planted	330	330	330	350	350	350		350	(1000 HA)
Area Harvested	330	330	300	350	350	320		325	(1000 HA)
Production	13,200	13,200	12,500	15,000	15,000	14,800		15,000	(1000 MT)
Total Supply	13,200	13,200	12,500	15,000	15,000	14,800		15,000	(1000 MT)
Utilization for Sugar	13,200	13,200	12,500	15,000	15,000	14,800		15,000	(1000 MT)
Utilization for Alcohol	0	0	0	0	0	0		0	(1000 MT)
Total Distribution	13,200	13,200	12,500	15,000	15,000	14,800		15,000	(1000 MT)

The MY 2007 advance price was announced as YTL 95 /MT and the final price is announced at YTL 103/MT. The MY 2008 advance price was announced as YTL 101 /MT and the final price is announced at YTL 108/MT. MY 2009 advanced priced is also announced at YTL 108/MT. Sugar beet procurement prices are for 16 percent polar sugar content, so the actual price may increase or decrease depending on the sugar content of the beet crop.

The MY 2007 decrease was an attempt to bring Turkey's policy in line with the new policies of the EU, which are expected to cause a 36 percent drop in sugar beet procurement prices in the EU in the next four years. However, due to economic slowdown and public pressure, post does not expect any radical price decrease in the near future.

Farmers contracting with the TSC are obliged to use TSC-supplied seeds. Although they are free to purchase fertilizer from any source, they generally prefer to use TSC fertilizers because payments are not due until after harvest. TSC and PANKOBIRLIK also sometimes provide harvesting equipment or harvest services. Farmers are responsible for other costs including land, labor, irrigation, and transportation.

### Production Centrifugal Sugar

There are 33 sugar beet refineries and five starch based sweetener producers in Turkey. The state-owned Turkish Sugar Corporation (TSC) owns 25 of the sugar beet refineries. TSC acts under the Ministry of Industry and Trade. Three TSC refineries are currently under the control of the Privatization Committee. PANKOBIRLIK, a cooperative, owns more than 88 percent of five private sugar refineries; Amasya, Konya, Kayseri, Cumra and Bogazliyan. It also has some shares in the Adapazari and Kutahya refineries. MB Sugar, located in Aksaray, is the only private refinery that PANKOBIRLIK does not own a share in.

Although TSC refineries function as different plants of the same company, PANKOBIRLIK refineries function independently from each other and they are supervised by individual executive boards.

## Quotas

Turkey: MY 2009 Sugar Production Quotas (MT)	
<b>A Quota</b>	2,400,00
<b>B Quota</b>	120,000
<b>SBS Quota</b>	266,700 (360,045 with 35% COM increase)

Turkey's centrifugal sugar production is limited by quotas. Turkey first implemented a production quota system in MY 2003 and under this system the Sugar Board sets the quota. Between MY 2003 and MY 2008, the annual production quota was 2,342,000 MT. In MY 2009 the total production quota rose slightly to 2,400,000 MT. This was the first increase since the production quota system began.

In the past, 10 percent of the total production quota was reserved for the starch-based sugar (SBS) producing industry. For MY 2009, this portion of the quota has been increased to 266,700 MT.

## Centrifugal Sugar PSD Table

Sugar, Centrifugal Turkey	2008			2009			2010		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Sep 2007			Market Year Begin: Sep 2008			Market Year Begin: Sep 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Beginning Stocks	710	710	710	470	470	410			475 (1000 MT)
Beet Sugar Production	1,800	1,800	1,700	2,100	2,100	2,100			2,100 (1000 MT)
Cane Sugar Production	0	0	0	0	0	0			0 (1000 MT)
Total Sugar Production	1,800	1,800	1,700	2,100	2,100	2,100			2,100 (1000 MT)
Raw Imports	0	0	0	0	0	0			0 (1000 MT)
Refined Imp.(Raw Val)	0	0	5	0	0	5			5 (1000 MT)
Total Imports	0	0	5	0	0	5			5 (1000 MT)
Total Supply	2,510	2,510	2,415	2,570	2,570	2,515			2,580 (1000 MT)
Raw Exports	0	0	0	0	0	0			0 (1000 MT)
Refined Exp.(Raw Val)	40	40	5	40	40	40			40 (1000 MT)
Total Exports	40	40	5	40	40	40			40 (1000 MT)
Human Dom. Consumption	2,000	2,000	2,000	2,000	2,000	2,000			2,000 (1000 MT)
Other Disappearance	0	0	0	0	0	0			0 (1000 MT)
Total Use	2,000	2,000	2,000	2,000	2,000	2,000			2,000 (1000 MT)
Ending Stocks	470	470	410	530	530	475			540 (1000 MT)
Total Distribution	2,510	2,510	2,415	2,570	2,570	2,515			2,580 (1000 MT)

Turkey's estimated sugar beet production for MY 2008 was 12.5 MMT and the harvested area was 300,000 hectares. This was substantial decrease from the year before due to drought. Total centrifugal sugar production for MY 2008 was 1.7 MMT. Assuming continued favorable weather conditions and precipitation, Post forecasts that total sugar beet production for MY 2009 will be 14.8 MMT and centrifugal sugar production will be 2.1 MMT. Due to lower production, MY 2008 export estimate has been lowered to 5,000 MT. With increased production post expects the MY 2009 export number to return to 40,000 MT.

### **Production Policy**

The Sugar Law of 2001 formed a Sugar Board which operates under the Ministry of Industry and Trade. The Sugar Board has seven members: four government officials and one representative each from TSC, PANKOBIRLIK, and the starch-based sweeteners sector. The representatives from PANKOBIRLIK and SBS sector which are sent to the board are from the companies with the highest production. The main responsibility of the Board is to distribute production quotas to all the sugar-and sweetener-producing companies based on their performance over the previous three years. For newly established refineries, the quota is determined by their reported capacity.

Distribution of the production quotas creates problems from time to time for both sugar and SBS producers. There is significant opposition to the system by PANKOBIRLIK refineries that are not represented on the Board. They argue that their production capacities are deliberately misinterpreted in favor of the refineries represented in the Board.

There have been several attempts to change the Sugar Law but so far all have failed. There has been speculation in the media that the Ministry of Industry intends to draft a new Sugar Law giving the Council of Ministers, rather than the Sugar Board, the authority to determine production quotas. The Ministry has denied these rumors.

A lawsuit that was opened in 2005 against the reappointment of the Sugar Board concluded in November 2008. The Constitutional Court's ruling nullified the Council of Ministers' right to authorize the Sugar Board's powers. Industry sources noted that the Sugar Board's existence is closely linked with completion of privatization efforts and that its authority will be extended until the conclusion of privatization of government-owned sugar factories regardless of this or other court rulings.

### **Consumption**

Industry sources agree that total sugar consumption in Turkey is around 2.7 MMT per year, well above the amount of sugar produced according to official quotas. Therefore, in order to meet domestic demand, out-of-quota sugar is typically sourced illegally.

A huge quantity of sugar is smuggled into Turkey across the southern border. Although the industry does not agree on the volume of this trade, it is estimated that every year around 200,000 MT of sugar enters Turkey "together with a passenger" and another 100,000 MT are smuggled through other means. According to Turkish law, the maximum amount of sugar a passenger can bring to Turkey is 75 kg. However, some "passengers" cross the border several times a day and bringing in 75 kg of sugar each time. In addition to this enormous border trade, there is also smuggling.

Another problem is the illegal sale of C quota sugar in the domestic market. This sugar is priced close to world prices and is supposed to be used in exported products only. Some companies were caught selling it for use in products for the domestic market and were

penalized by the Sugar Board. The Sugar Board also penalized some SBS producing companies for selling SBS that is not invoiced or under invoiced.

Of the 2.7 MMT of annual sugar and sweetener consumption, SBS accounts for approximately 350,000 MT, unregistered and smuggled sugar accounts for around 300,000 MT, and beet sugar accounts for the remainder.

### Prices

As per the Sugar Law, TSC and PANKOBIRLIK have been setting prices for processed sugar independently since the beginning of MY 2003. The following table provides the prices paid by TSC (8 percent value-added tax included) between 2004 and 2009.

#### Price Paid by TSC for Sugar 2004-2009

Price Paid by Turkish Sugar Corporation 2004- 2009			
Type of Sugar	2004-2007 (YTL/Kg)	2008 (YTL/Kg)	2009 (YTL/Kg)
Crystal Sugar:			
- In 50 kilogram bags	1.696	1.868	1.868
Cube Sugar:			
- In 50 kilogram bags	1.841	2.322	2.322

(As of April 1, 2009, USD 1.00 is approximately YTL 1.67)

Prices were fairly stable from 2004 to 2007 and increased 10 percent by the end of 2008. Currently 2009 prices remain at 2008 levels. Due to the privatization of TSC and increased competition in the market, industry sources expect prices to return to around US \$700 after the completion of privatization.

Both TSC and the private companies have been selling sugar at discounted prices and/or deferred payments since 2005. Depending on market conditions and the particular refineries, TSC refineries are providing discounts of from six to twenty percent for cash payments and eight to twelve month deferred payments.

### Starch-Based Sweeteners (SBS)

There are five factories in Turkey producing starch-based sweeteners (SBS) under quota; they have a total capacity of around 932,000 MT. Two of these factories are one hundred percent owned by foreign companies; two are one hundred percent owned by domestic companies and one is a joint venture.

The Sugar Law allows the Council of Ministers (COM) to increase or decrease the SBS production quota by 50 percent regardless of the quota allocated to the sugar beet industry. Since the beginning of the quota system, the COM had increased the SBS quota every year. In MY 2009, "A" quota has been increased to 2,400,000 MT. In effect the SBS quota was increased to 266,667 MT. The Council of Ministers (COM) increased the SBS quota further by 35 percent. However the total amount of SBS produced increased marginally (approximately 9,000 MT) due to increased SBS quota.

With this slight increase SBS producers are utilizing only about 30% of their capacity. Industry sources estimate market demand at 600,000 MT per year. Many analysts believe

that keeping the quota at such low levels does not protect the sugar beet farmer but instead promotes sugar smuggling.

<b>Turkey: Starch-based Sweetener Quota</b>		
	<b>MY 2008</b>	<b>MY 2009</b>
Initial SBS Quota (MT)	234,100	266,677
Council Of Ministers Increase (%)	50%	35%
Final SBS Quota (MT)	351,000	360,045

### **Ethanol and Molasses**

Sugar beet producer cooperatives are trying to find new uses for beets. One of the areas that they are interested in is bio-ethanol production. The Konya Sugar Company of PANKOBIRLIK built an ethanol plant in Cumra. This is the first and only ethanol factory using sugar beets as a raw material in Turkey. Konya Sugar commented that an ethanol plant to them is an example of corporate responsibility and it expects to be seen as an example for promoting green fuels. Ethanol production in this plant started at the end of 2007. The plant has the capacity to process 800,000 MT of sugar beets annually, producing 80,000 m<sup>3</sup> of ethanol.

Turkish molasses production is estimated to use around four percent of the total beet production. In MY 2009 it is estimated that about 590,000 MT of molasses will be produced. This molasses is used in animal feed and in the production of alcohol and yeast. A small quantity is also being sold to neighboring countries. The price of molasses varies from USD 150 to USD 200 per MT, depending upon where it is produced and sold.

### **Privatization**

Between 2004 and 2005 the Turkish government successfully privatized three government-owned sugar refineries; Kutahya, Adapazari and Aksaray. The government run Turkish Sugar Corporation (TSC) still operates 25 refineries of which 3 (Ilgin, Bor, Eregli) have been previously turned over to the Privatization Administration. The privatization of these refineries was postponed in May 2006, then again in June 2006, and finally cancelled in November 2006.

In December 2007 privatization efforts restarted and all the remaining government refineries were transferred to the Privatization Administration. However, privatization efforts were halted again in August 2008 when the Council of State Administrative Litigation Office stopped the progress of the Privatization Administrations efforts to privatize 3 sugar refineries (Ilgin, Bor, Eregli). The Council of State's reason was that in principle privatization efforts were to be carried out in factory portfolios. The Council of State declared that the Privatization Administration tried to privatize Ankara Sugar Factory on its own, which damaged the privatization strategy thus halting the process. In 2008 the Privatization Administration released a list of factory portfolios (see below).

List of Sugar Factory Portfolios for Privatization:

Portfolio A: Kars, Erzurum, Agri, Mus and Erzurum

Portfolio B: Elazig, Malatya, Erzincan and Elbistan

Portfolio C: Kastamonu, Kirsehir, Turhal, Yozgat, Çorum and Çarsamba

Portfolio D: Bor, Eregli and Ilgin

Portfolio E: Usak, Alpullu, Burdur and Afyon

Portfolio F: Eskisehir and Ankara

The privatization efforts included the condition that “future owners of the factories should procure beets from domestic sources for the next 5 years”. The bidding for the Portfolio A factories (i.e. in the Eastern part of Turkey) did not get any bids in the allotted period which ended in November 2008. Industry sources suggest that these low-capacity factories are too inefficient to generate private sector interest.

TSC factories are widely known to be plagued with production inefficiencies and old technology. One of the main arguments of the anti-privatization opinion leaders is that once these plants are privatized, only a few profitable refineries will survive and the rest will be shut down, causing a spike in unemployment.

The immediate future of these factories and their production capacity is uncertain. After the transfer to the Privatization Administration there were massive layoffs. In December 2007, 650 people (20 percent of the white-collar work force of these companies) were laid off. According to industry sources the laid-off group constituted the majority of TSC’s most knowledgeable staff. Until privatization is finished these factories will have to operate with a reduced workforce or sugar beets will have to be redistributed to the more efficient factories.

The Privatization Administration’s aim is completing privatization within 24 months. Lack of interest in Portfolio A companies show that the process might take longer than expected.

Post expects the Turkish sugar sector to become more cost effective and competitive once the sugar plants are privatized. Currently, the sugar prices in Turkey are far from world prices because of government protection and the use of old technology in the state owned plants.

## Trade

The average sugar production cost in Turkey is well above world prices. Because there are no export subsidies, consequently Turkey’s sugar exports are negligible. Manufacturing companies that use sugar in their exported products, however, are eligible to buy “C” quota sugar at world prices. The current “C” quota selling price is US \$457/MT; while the current “A” quota sugar selling price is YTL 1,868, approximately US \$1,120/MT. These exporters can also import sugar for inward processing and do not pay any duty on the amount of sugar used in their exported products.

Previously, the Sugar Board penalized companies for exploiting the “C” quota sugar used in their locally marketed products and amended the regulations on the usage of “C” quota sugar. The legislation which entered into force on December 21, 2006, states that companies can only buy “C” quota sugar after they present export documents to the Sugar Board. In practice, exporting companies now get reimbursed after the actual export. Moreover, with this new legislation, fruit juice exporting companies will no longer be able to use “C” quota sugar. This industry generally uses starch-based sweetener rather than beet sugar for nectar production; this decision, however, is harmful because beet sugar is preferred in the production of nectar. In addition, with the new law, sales to Free Trade Zones are not accepted as exports.

The tariff rate on sugar imports remained at 135 percent on the CIF value in 2009. Turkey has a trade agreement with Bosnia Herzegovina which allows for duty free imports of sugar. The import duties on products containing sugar like candies, biscuits, and chocolates are high and can vary between 8.3 percent and 15.4 percent, plus an additional tax called “agricultural contribution” that can go as high as 300 Euro (about US \$400) per one hundred kilograms depending upon the starch/glucose ratio and milk fat percentage. This is adopted directly from the EU system.

**Export Trade matrix**

Turkey: Sugar, Centrifugal			
Time Period	Jan. - Dec.	Units:	Metric Tons
Exports for:	2007		2008
U.S.	22	U.S.	33
Others		Others	
Iraq	10981	Azerbaijan	4138
Israel	5873	Turk. Rep. of N. Cyprus	365
Azerbaijan	4833	Palestine	220
Romania	3815	Lebanon	122
Turk. Rep. of N. Cyprus	3661	Iraq	66
Syria	3176	United Arab Emirates	60
Iran	2982	Israel	60
Russia	700	Bahrain	38
Lebanon	686	Tajikistan	37
Italy	560	Australia	36
Total for Others	37267		5142
Others not Listed	666		105
Grand Total	37955		5280

**Import Trade Matrix**

Turkey: Sugar, Centrifugal			
Time Period	Jan. - Dec.	Units:	Metric Tons
Imports for:	2007		2008
U.S.	22	U.S.	13
Others		Others	
United Kingdom	3628	United Kingdom	3804
Germany	236	France	209
United Arab Emirates	175	United Arab Emirates	168
France	121	Germany	126
Turk. Rep. of N. Cyprus	5	South Africa	20
Total for Others	4165		4327
Others not Listed	1		2
Grand Total	4188		4342

In CY 2007 tariff rate for chemically pure sucrose increased from 0 to 135 percent. The import of this product was very insignificant before the tariff rate change.

### **Stocks**

There is no official data on stocks, and industry estimates vary greatly. Post estimates MY 2008 beginning stocks were 710,000 MT, MY 2009 beginning stocks were 410,000 MT, and MY 2010 beginning stocks at 475,000 MT. The high price of beet sugar, the routine starch based sugar quota increases, the unregistered sales of local starch based sugar production, and smuggling from bordering countries all hamper efforts to reduce sugar stocks.

### **Marketing**

The TSC and private producers, wholesalers, and retailers handle the marketing of sugar. All SBS producers and distributors are private.

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